Local Fiscal Capacity for Funding Education in Tennessee

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Local Fiscal Effort

Represents what school systems
___are doing___ to fund education.

Local Fiscal Capacity

Represents what school systems
___can do___ based on relevant
community characteristics:

- *Tax base*
- *Income*
- *Tax burden*
- *School Population*

TACIR Fiscal Capacity Model
What is it?

- **A Modified Representative Tax System Approach** (Regression Weighted)

- **A Pupil Equity Model**—measured by the tax base per student

- **A Taxpayer Equity Model**—measured by
  - Ability to pay
  - Resident tax burden
  - Tax exportability

- **A Fiscal "Behavioral" Model**
  - *Does not set normative standards for local revenue.*
  - *Accepts actual levels of local revenue as basis for measuring fiscal capacity.*

- **Three-year Moving Average**—mitigates both errors and volatility in the data

Basic Education Program Formula Equalization
Fiscal Capacity Model Components and Factors

Components		**Factors**
Local Revenue	☞	*Own-source Revenue per Pupil*
Tax Base *(Pupil Equity)*	☞ ☞	▪ *Taxable Sales per Pupil* ▪ *Property per Pupil*
Ability to Pay *(Taxpayer Equity)*	☞	▪ *Per Capita Income*
Resident Tax Burden *(Taxpayer Equity)*	☞	*Ratio of Residential & Farm Assessment to Total Assessment*
Service Responsibility *(Pupil Equity)*	☞	*Ratio of Average Daily Membership to Population*
Methodology	☞	*Ordinary Least Squares Multiple Linear Regression*
Output	☞	Fiscal Capacity per Pupil

Effect of Changes in
Fiscal Capacity Factors

The relationship between fiscal capacity and specific variables (other things being equal) is illustrated as follows:

Property Assessment Increases ⬆ Fiscal Capacity Increases ⬆

Taxable Sales Increase ⬆ Fiscal Capacity Increases ⬆

Per Capita Income Increases ⬆ Fiscal Capacity Increases ⬆

Tax Burden Ratio Increases ⬆ Fiscal Capacity Decreases ⬇

ADM/Population Ratio Increases ⬆ Fiscal Capacity Decreases ⬇